

Message Text

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PAGE 01 OECD P 08765 01 OF 02 241943Z
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 L-03 SS-15 NSC-05 STR-04 /111 W
-----242002Z 085579 /42

R 241951Z MAR 77
FM USMISSION OECD PARIS
TO SECSTATE WASH DC 5858
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY OTTAWA
AMEMBASSY ROME
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LIMITED OFFICIAL USE SECTION 01 OF 02 OECD PARIS 08765

PASS TREASURY, FEDERAL RESERVE, CEA

E.O. 11652: N/A
TAGS: EFIN, ECON, OECD
SUBJECT: MARCH 22-23 MEETING OF EXPERTS ON MEDIUM TERM
BALANCE OF PAYMENTS PROJECTIONS

REF: (A) OECD PARIS 7640, (B) CPE/WP3(77)3,
(C) CPE/WP3(77)1, (D) DES/NI(77)1,
(E) DES/NI(77)2

1. SUMMARY. IN 1-1/2-DAY MEETING, EXPERTS AGREED THAT
AN EXERCISE ATTEMPTING TO SHED LIGHT ON POSSIBLE FUTURE
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PAGE 02 OECD P 08765 01 OF 02 241943Z

EVOLUTION OF THE BALANCE OF PAYMENTS POSITION ON CURRENT
ACCOUNT OF MAJOR OECD COUNTRIES, SUCH AS THAT UNDERTAKEN
BY THE SECRETARIAT IN REF C, IS USEFUL PROVIDED ITS
LIMITATIONS ARE CLEARLY RECOGNIZED, ESPECIALLY SO WHEN
CONSIDERING POLICY IMPLICATIONS. GROUP RECOMMENDED THAT
THREE OR FOUR ALTERNATIVE SCENARIOS BE CONSTRUCTED.
DRAFT REPORT TO WORKING PARTY THREE WILL BE PREPARED BY

SECRETARIAT AND CIRCULATED TO THE EXPERTS FOR THEIR APPROVAL BEFORE SUBMISSION TO WP3. END SUMMARY

2. AS AGREED AT FEBRUARY 28 MEETING OF WORKING PARTY THREE OF THE ECONOMIC POLICY COMMITTEE AND IN RESPONSE TO SPECIFIC INVITATION ISSUED BY SECRETARIAT (REF A), NATIONAL EXPERTS FROM WP3 MEMBER COUNTRIES MET MARCH 22 AND 23 TO EXAMINE THE SECRETARIAT'S NOTE ON THE FUTURE PATTERN OF CURRENT ACCOUNT BALANCES AND THEIR FINANCING (REF C), WHICH SET FORTH A "REFERENCE CASE" OF THE DISTRIBUTION OF THE OECD'S COLLECTIVE CURRENT ACCOUNT BALANCE (DEFICIT) IN 1979. SECRETARIAT (FAY) TOOK THE CHAIR AT SUGGESTION OF US DEL (KLOCK). DISCUSSIONS WERE INCISIVE AND USEFUL.

3. GENERAL REACTIONS TO THE NOTE RANGED FROM BARELY MUTED EXPRESSION OF DOUBT OF ITS UTILITY (FRANCE, GERMANY AND JAPAN) TO THE ITALIAN REP'S CANDID ADMISSION (SHARED SOMEWHAT BY SWEDISH DEL) OF WELCOMING ANY STUDY THAT MIGHT POTENTIALLY LEAD TO SUGGESTION THAT STRONG COUNTRIES OUGHT TO TAKE STEPS WHICH ASSIST WEAK COUNTRIES IN ADJUSTING. FRANCE POINTED TO HAZARDS OF PUBLIC LEAKS OF ANY SCENARIO, HOWEVER CAVEATED, AND FELT ANY PROJECTION WHICH DEVIATED FROM NORMATIVE OBJECTIVES OF GOVERNMENTS (E.G. BARRE PLAN) WAS INADMISSIBLE. GERMANY AND JAPAN POINTED TO INADEQUACIES IN THE STATE OF THE ART, JAPANESE BEING PARTICULARLY DOUBTFUL ABOUT POSSIBILITY OF CHOOSING APPROPRIATE BASE PERIOD AT A TIME WHEN "EVERY YEAR IS SPECIAL." REMAINING EXPERTS, LIMITED OFFICIAL USE

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PAGE 03 OECD P 08765 01 OF 02 241943Z

INCLUDING US DEL AND UK REP (EDWARDS), TOOK AGNOSTIC POSITION WHICH (A) RECOGNIZED INHERENT DIFFICULTIES OF EXERCISE AND DANGER OF DRAWING UNWARRANTED CONCLUSIONS, (B) SUGGESTED AREAS WHERE SECRETARIAT'S METHODOLOGY MIGHT BE IMPROVED, PARTICULARLY IN REFINING ELEMENTS OF SENSITIVITY ANALYSIS, AND (C) GENERALLY CONCLUDED THAT, PROVIDED ITS SEVERE LIMITATIONS WERE KEPT IN MIND, AN EFFORT TO GAZE INTO THE FUTURE, EVEN ON SUCH A VOLATILE VARIABLE AS THE BALANCE OF PAYMENTS (WHICH IS A RESIDUAL OF MANY INTERACTING FACTORS), WOULD NOT BE HARMFUL AND MIGHT WELL PROVIDE SOME USEFUL INSIGHTS.

4. DISCUSSION FOCUSED ON FOLLOWING AREAS:

(A) DESIRABILITY OF ALTERNATIVE SCENARIOS RATHER THAN SINGLE REFERENCE CASE (WHICH INTER ALIA WOULD HELP FORESTALL DANGER THAT, IF LEAKED, A REFERENCE CASE WOULD BE PORTRAYED AS AN OECD OR WP3 FORECAST);

(B) SCOPE FOR VARIABILITY OF RESULTS FOR DIFFERENT
WP3 COUNTRIES AND ALSO FOR GROUPS OF COUNTRIES WHOSE
BALANCE OF PAYMENTS POSITIONS WERE MORE OR LESS ASSUMED
AS "BOUNDARY CONDITIONS" (E.G. OPEC);

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PAGE 01 OECD P 08765 02 OF 02 241941Z
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LIMITED OFFICIAL USE SECTION 02 OF 02 OECD PARIS 08765

(C) ADEQUACY OF EXCHANGE RATE ASSUMPTION (NO CHANGE
IN PRESENT NOMINAL RATES);

(D) POTENTIAL FOR FORECASTING CAPITAL FLOWS, OR AT
LEAST CERTAIN FLOWS; AND

(E) NEED FOR MORE ELABORATE ECONOMETRIC UNDERPIN-
NING.

5. CONSENSUS WAS REACHED ON THE FOLLOWING ELEMENTS OF A
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PAGE 02 OECD P 08765 02 OF 02 241941Z

REPORT TO WORKING PARTY THREE:

--EXERCISE IS USEFUL IF ITS LIMITATIONS ARE CLEARLY
RECOGNIZED BY WP3, ESPECIALLY WITH REGARD TO THE DANGER
OF DRAWING POLICY IMPLICATIONS.

--MORE ATTENTION WILL HAVE TO BE GIVEN IN ANY FUTURE
ITERATION OF THE EXERCISE TO THE COHERENCE OF THE
"BOUNDARY CONDITIONS."

--THE BASE PERIOD (I.E. "INITIAL CONDITIONS") NEEDS TO
BE CAREFULLY EXAMINED (AND ADJUSTED AS NECESSARY) TO
ENSURE THAT IT IS APPROPRIATE (JAPANESE DEL WAS PARTI-
CULARLY FORCEFUL ON THIS POINT).

--RATHER THAN A SINGLE REFERENCE CASE, THREE OR FOUR
ALTERNATIVE SCENARIOS SHOULD BE CONSTRUCTED, REFLECTING
A BROAD RANGE OF POSSIBLE POLICIES AND OUTCOMES AND
ASSUMPTIONS, E.G., VARIOUS DEMAND MANAGEMENT POLICIES
AND ALTERNATIVE DEVELOPMENTS IN COMPETITIVE POSITIONS.

6. SECRETARIAT WILL DRAFT REPORT ALONG THESE LINES FOR
CIRCULATION TO NATIONAL EXPERTS FOR THEIR APPROVAL BE-
FORE ITS SUBMISSION TO WP3. REPORT WOULD ALSO RECOM-
MEND THAT, IF WP3 AGREES TO PURSUE EXERCISE, FUTURE
RESULTS OF THE SECRETARIAT'S WORK SHOULD BE VETTED AMONG
TECHNICAL EXPERTS BEFORE BEING SUBMITTED TO THE WORKING
PARTY.
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